

## Message Text

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ACTION MMO-02

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C O N F I D E N T I A L KINSHASA 8999

E.O. 11652: XGDS-1  
TAGS: EFIN EALR ECRP CG  
SUBJ: CERP - ZAIRIAN BUDGETARY PERFORMANCE, JAN-JUN 1978

REF: KINSHASA 1700

1. SUMMARY. DESPITE STRONG GOVT RECEIPTS, AND AN INCREASING NUMBER OF UNPAID BILLS, THE ZAIRIAN GOVT RAN A Z143 MILLION DEFICIT ON CURRENT ACCOUNT OPERATIONS FOR THE FIRST SIX MONTHS OF 1978. THIS DEFICIT WOULD HAVE BEEN EVEN HIGHER BUT FOR SOME QUESTIONABLE ACCOUNTING PRACTICES WITH REGARD TO ALLOCATED BUT UNTRANSFERRED DEBT SERVICE PAYMENTS. AS WAS TO BE EXPECTED, GOVT OVERSPENDING WAS WORST IN THE AREAS OF WAGES AND SALARIES AND IN THE PRESIDENTIAL SLUSH FUND. IT WOULD APPEAR THAT THE GOZ HAS YET TO FIND THE WILL AND THE ABILITY TO KEEP ITS EXPENDITURES IN LINE WITH ITS OWN LIBERAL BUDGET GUIDELINES. END SUMMARY.

2. ACCORDING TO WELL PLACED EXPATRIATE SOURCES HERE, THE ZAIRIAN GOVT RAN A Z143 MILLION (174MILLION DOLLARS) BUDGET DEFICIT FOR THE FIRST SIX MONTHS OF 1978. REVENUES DURING THIS PERIOD WERE STRONG, Z485 MILLION (592 MILLION DOLLARS) AS COMPARED WITH Z364 (422 MILLION DOLLARS) FOR THE FIRST SIX MONTHS OF 1977, BUT EXPENDITURES ALSO SHOWED A MAJOR INCREASE. TOTAL EXPENDITURES FOR THE FIRST SIX MONTHS OF 1977 WERE Z469 MILLION (544 MILLION DOLLARS), FOR THE SAME PERIOD IN 1978 THEY REACHED Z628  
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MILLION (766 MILLION DOLLARS). IT SEEMS LIKELY, HOWEVER, THAT THIS EXPENDITURE FIGURE IS SOMEWHAT DISTORTED. OFFICIAL GOZ STATISTICS GIVE EXPENDITURES FOR THE FIRST QUARTER AS Z326 MILLION OF WHICH 92 MILLION WAS TO BE USED FOR EXTERNAL DEBT SERVICE PAYMENTS. SINCE THE FOREIGN EXCHANGE WAS NOT AVAILABLE TO EFFECTUATE THESE PAYMENTS, THE Z92 MILLION WAS RETURNED TO THE CENTRAL BANK'S GENERAL FUND RATHER THAN BEING PUT ASIDE INTO A HOLDING ACCOUNT

UNTIL SUCH TIME AS THE HARD CURRENCY DID BECOME AVAILABLE. THIS REDUCED THE FIRST QUARTER SPENDING TO Z234 MILLION AND THE DEFICIT FROM Z144 MILLION TO Z52 MILLION. HAD THIS Z92 MILLION BEEN INCLUDED IN THE CUMULATIVE FIGURES THE DEFICIT FOR THE FIRST SIX MONTHS WOULD HAVE BEEN Z235 MILLION (287 MILLION DOLLARS) OR OVER TWO THIRDS THE SIZE OF 1977'S FULL YEAR DEFICIT.

3. AS WAS TO BE EXPECTED, OVERSPENDING CONTINUED TO BE MOST VISIBLE IN TWO AREAS, THE PRESIDENTIAL "DOTATIONS" OR SLUSH FUND AND SALARY PAYMENTS. THE 1977 BUDGETARY ALLOCATION FOR THOSE DEPTS COVERED BY THE "DOTATIONS"; THE PRESIDENT'S OFFICE; MAMA MOBUTU'S CHARITY ORGANIZATION, THE PARTY YOUTH MOVEMENT AND SEVERAL OTHERS, WAS MORE THAN DOUBLED IN 1978 TO Z65 MILLION (79 MILLION DOLLARS), YET IN THE FIRST SIX MONTHS OF THE YEAR THIS ALLOTMENT WAS ALMOST EXHAUSTED. EXPENDITURES REACHED Z59 MILLION 72 MILLION DOLLARS, AND THERE IS CURRENTLY NO SLOWDOWN IN SIGHT. SALARY EXPENDITURES FOR THE FIRST SIX MONTHS HAVE ALREADY OUTSTRIPPED THE AMOUNT BUDGETED FOR THE ENTIRE YEAR AS ALL GOVT EMPLOYEES WERE QUIETLY GIVEN A 25 PCT RAISE, BUT PAYMENTS TO TEACHERS AND THE MILITARY STILL TEND TO BE SEVERAL MONTHS BEHIND, AND AT TIMES ARE NOT RECEIVED AT ALL.

4. COMMENT: WHILE THE ACCOUNTING TECHNIQUE USED TO DIMINISH ZAIRE'S BUDGET EXPENDITURES FOR THE FIRST SIX MONTHS MAY BE ADMISSIBLE, THIS SORT OF JUGGLING DOES LITTLE TO INSTILL CONFIDENCE IN THE GOZ'S ABILITY AND WILLINGNESS TO MANAGE ITS MONEY PROPERLY. CONFIDENTIAL

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THIS PARTICULAR DEVICE HAS BEEN A STICKING POINT BETWEEN THE DIRECTOR OF THE DEBT MANAGEMENT OFFICE AND THE GOVERNOR OF THE CENTRAL BANK FOR SOME MONTHS, AND THE GOVERNOR APPEARS TO HAVE WON. WHILE THERE IS HOPE THAT THE ARRIVAL OF THE IMF-SECONDED PRINCIPAL DIRECTOR AT THE BANK WILL ELIMINATE THIS TYPE OF ACTION, THE BASIC PROBLEM WILL REMAIN AS LONG AS POLICY-LEVEL OFFICIALS WITHIN THE GOZ DO NOT UNDERSTAND AND APPLY BASIC BUDGETING AND ACCOUNTING PRINCIPLES TO THE OPERATIONS OF THE ZAIRIAN GOVT. DAVIS

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